

Message Text

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S/S - MR. BORG

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TO USDEL SECRETARY IMMEDIATE

S E C R E T STATE 156456 TOSEC 050097

NODIS

E.O. 11652: GDS

TAGS: IR, ENGR

SUBJECT: IRAN OIL ARRANGEMENT

1. I MET WITH MINISTER ANSARY IN TEHRAN ON JUNE 30 TO DISCUSS A DEFINITIVE ARRANGEMENT FOR U.S. PURCHASE OF IRANIAN OIL COMBINED WITH IRAN'S PURCHASE OF U.S. PRODUCTS. AS A RESULT OF PROGRESS ACHIEVED IN THIS TWO-HOUR MEETING, THERE FOLLOWED A SESSION WITH THE SHAH AND ANSARY FOR A FURTHER REVIEW OF THIS MATTER. AMBASSADOR HELMS ATTENDED BOTH SESSIONS WITH ME, A SUMMARY OF WHICH FOLLOWS.

2. I PRESENTED THE PLAN AS AGREED, WHICH CALLED FOR A FIVE-YEAR PURCHASE OF 500,000 BBLs/DAY AT THE CURRENT OPEC PRICE OF \$10.46 TO BE INCREASED PROPORTIONATELY WITH CHANGES IN THE U.S. WHOLESALE PRICE INDEX BUT IN NO EVENT TO BE ABOVE THE OFFICIAL OPEC PRICE IN THE FUTURE; WITH A FURTHER DISCOUNT REPRESENTED BY A 12-MONTH INTEREST MORATORIUM ON THE U.S. TREASURY NOTES TO BE USED TO PAY FOR OIL IMPORTS (SEE MY MEMORANDUM OF SECRET

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6/13/75 - TAB A).

3. AS ANTICIPATED, ANSARY OBJECTED TO TWO KEY ELEMENTS IN OUR PROPOSAL:

(A) THE PROVISION THAT THE PROPOSED FORMULA
PRICE NOT EXCEED THE OFFICIAL OPEC PRICE, AND

(B) THE 12-MONTH INTEREST MORATORIUM.

4. AFTER CONSIDERABLE ARGUMENT OVER THE FIRST ISSUE I
SUGGESTED THE U.S. BE GIVEN AN OPTION TO TERMINATE THE
AGREEMENT SHOULD THE FORMULA PRICE EXCEED THE OFFICIAL
OPEC PRICE. ANSARY FINALLY ACCEPTED THIS ALTERNATIVE
BUT ONLY SUBJECT TO IRAN'S BEING GRANTED AN OPTION TO
TERMINATE THE AGREEMENT IF OVER SOME PERIOD OF TIME
(TO BE AGREED) THE PRICES FOR PRODUCTS WHICH IRAN
PURCHASES FROM THE U.S. INCREASE MORE RAPIDLY THAN THE
U.S. WHOLESALE PRICE INDEX. ANSARY STATED THAT THIS
WAS ONLY FOR DOMESTIC POLITICAL CONSIDERATIONS (TO
BALANCE THE U.S. OPTION) AS TERMINATION OF THE AGREEMENT
ITSELF WOULD BE ADVERSE TO IRAN'S INTERESTS AND IRAN
COULD BE EXPECTED TO PROCEED WITH ITS U.S. PURCHASE
PROGRAM IN ANY EVENT. I RESERVED OUR POSITION ON BOTH
OF THESE OPTION FORMULATIONS, SAYING THAT THEY WOULD
HAVE TO BE CONSIDERED AFTER MY RETURN TO WASHINGTON.

5. WITH REGARD TO THE MORATORIUM, ANSARY ARGUED THAT
THE FORMULA PRICE ITSELF, PARTICULARLY WITH OUR RIGHT TO
CANCEL THE AGREEMENT IF THIS SHOULD EXCEED THE OFFICIAL
OPEC LEVEL, "GUARANTEES" A SIGNIFICANT PRICE DISCOUNT
AND, THEREFORE, IT WOULD BE DIFFICULT TO GRANT A
FURTHER DISCOUNT THROUGH AN INTEREST MORATORIUM. I
STRESSED THAT THE LATTER INDUCEMENT WAS ESSENTIAL IF WE
WERE TO UNDERTAKE TO RESOLVE THE MANY OTHER ISSUES
INVOLVED. IT WAS FINALLY AGREED THAT THIS WOULD BE
REFERRED TO THE SHAH.

6. IN THE SUBSEQUENT MEETING THE SHAH REAFFIRMED HIS
STRONG INTEREST IN THE PROPOSED OIL PURCHASE ARRANGEMENT.
I POINTED OUT THE PROBLEMS POSED BY HIS INITIAL
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SUGGESTION THAT THE PRICES OF BOTH OIL AND U.S. PRODUCTS
BE FIXED FOR THE PERIOD OF THE AGREEMENT, PARTICULARLY
IN VIEW OF THE INVOLVEMENT OF OUR PRIVATE SECTOR. I
STRESSED, HOWEVER, THAT OUR PLAN PROVIDED FOR A
GENERALLY PARALLEL ADJUSTMENT IN BOTH OIL AND U.S.
PRODUCT PRICES WHICH PRESERVED HIS OASAC COVCEPERY -
SHAH ACKNOWLEDGED THAT WE WERE NOW ON A BASIS VERY
CLOSE TO THAT WHICH HE HAD CONTEMPLATED WHEN HE HAD
FIRST SUGGESTED THIS IDEA TO YOU. HOWEVER, HE REPEATED
ANSARY'S OBJECTION TO THE LENGTH OF THE INTEREST
MORATORIUM PERIOD WHILE ACKNOWLEDGING THAT THEY WOULD
ACCEPT THE PRINCIPLE OF SOME MORATORIUM.

7. FINALLY HE INSTRUCTED ANSARY TO MEET WITH ME LATER

THAT EVENING TO DRAFT A WRITTEN OUTLINE OF AN AGREEMENT WHICH COULD BE CONSIDERED FURTHER BY THE U.S. BUT LEAVING OPEN THE ISSUE OF THE MORATORIUM PERIOD UNTIL THE U.S. COULD CONFIRM AGREEMENT IN PRINCIPLE ON ALL OTHER TERMS. (I MADE IT CLEAR THAT AFTER ALL PROVISIONS WERE IN PROPER LEGAL FORM AND HAD BEEN DETERMINED TO BE ACCEPTABLE TO US WE WOULD STILL REQUIRE AN OPTION PERIOD OF SEVERAL WEEKS TO DETERMINE THAT THERE WERE NO LEGAL ROADBLOCKS PREVENTING CONCLUSION OF SUCH AN AGREEMENT.)

8. LATE THAT NIGHT, I MET WITH ANSARY AND AMBASSADOR HELMS TO DRAFT THE OUTLINE OF AN AGREEMENT ATTACHED UNDER TAB B.

9. IN SUMMARY, I BELIEVE THAT WE ARE CLOSE TO AN ARRANGEMENT WHICH DESERVES OUR SERIOUS CONSIDERATION FOR THE SEVERAL REASONS DISCUSSED PREVIOUSLY. WE WOULD TRY TO IMPROVE OUR POSITION UNDER THE CONTRACT TERMINATION OPTIONS AND WOULD NEGOTIATE A MAXIMUM MORATORIUM PERIOD.

10. MINISTER ANSARY EXPECTS TO BE IN CANNES FROM JULY 14 TO 24 AND HAS SUGGESTED THAT I MEET WITH HIM THERE IF WE WANT TO PURSUE THIS FURTHER.

11. I BELIEVE WE SHOULD DISCUSS THIS MATTER FIRST AND
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THEN MEET WITH GREENSPAN AND ZARB TO DETERMINE WHERE AND HOW WE MIGHT MOVE FROM HERE.

ATTACHMENTS:

TAB A - ROBINSON MEMORANDUM DATED 6/13/75

TAB B - DRAFT AGREEMENT

MEMORANDUM FOR THE SECRETARY FROM CHARLES W. ROBINSON
DATED JUNE 13, 1975, SUBJECT: BILATERAL TRANSACTION -
IRAN.

IN MY MEETING WITH ANSARY IN PARIS ON JUNE 11, 1975 I DEVELOPED THE FOLLOWING GENERAL PLAN FOR A BILATERAL OIL DEAL WITH IRAN, ALL SUBJECT TO FURTHER CLARIFICATION AND REVIEW WITH THE US GOVERNMENT.

1. QUANTITY - 500-700,000 BBLS/DAY. (IT WAS THE SHAH WHO REQUESTED THIS INCREASE FROM OUR SUGGESTION OF "UP TO 500,000 BBL/DAY".

2. PERIOD - 5 YEARS FROM CONCLUSION OF AN AGREEMENT.

3. OIL PURCHASE PRICE - TWO ALTERNATIVES: (A) PRE-

VAILING OPEC OFFICIAL PRICE AT TIME OF EACH SHIPMENT.

(B) FIXED AT THE OPEC OFFICIAL PRICE AT CONTRACT SIGNING TO BE INCREASED BY PERCENTAGE INCREASE IN OFFICIAL U.S. WHOLESALE PRICE INDEX. (THIS REFLECTS THE BASIC CONCEPT OF BARTER OF IRANIAN OIL FOR U.S. PRODUCTS.)

4. PAYMENT - WHETHER OIL IS PURCHASED BY THE US GOVERNMENT DIRECTLY OR BY PRIVATE IMPORTERS UNDER AN ARRANGEMENT FOR PURCHASE PAYMENTS TO THE USG, THE U.S. TREASURY WOULD ISSUE TO IRAN ACCOUNT, 5-YEAR NOTES (OR EQUIPMENT PURCHASE CERTIFICATES). THESE TREASURY NOTES COULD BE APPLIED AGAINST PURCHASE OF U.S. PRODUCTS AFTER A MORATORIUM PERIOD TO BE AGREED (A 12-MONTH MORATORIUM WOULD BE EQUIVALENT TO A DISCOUNT OF ABOUT \$1L.00/BBL, DEPENDING ON PREVAILING INTEREST LEVELS.)

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5. TREASURY NOTE YIELD - AFTER THE MORATORIUM PERIOD THERE WOULD BE A YIELD ON THE 5-YEAR NOTES EQUIVALENT TO EITHER:

(A) AN AGREED INTEREST RATE, OR

(B) A FACTOR EQUIVALENT TO THE PERCENTAGE INCREASE IN THE U.S. WHOLESALE PRICE INDEX FROM THE END OF THE MORATORIUM PERIOD. (ALTHOUGH NOT YET AGREED, I ARGUED THAT THIS YIELD WOULD ONLY APPLY IF THE NOTES WERE USED FOR PURCHASE OF U.S. PRODUCTS, AND IN THE EVENT OF LIQUIDATION FOR CASH AFTER THE MORATORIUM PERIOD THIS WOULD BE AT FACE VALUE ONLY.)

6. U.S. PRODUCT PURCHASES - TO BE AT THE PREVAILING MARKET WHICH WOULD REFLECT NORMAL INFLATIONARY FORCES.

I MADE IT CLEAR TO ANSARY THAT WE REQUIRED AN AGREEMENT IN PRINCIPLE WITH IRAN BEFORE WE COULD EXPLORE IN A DEFINITIVE WAY THOSE ASPECTS OF A BILATERAL DEAL WHICH CALLED FOR BASIC USG DECISIONS. I ADVISED THAT THERE WERE THREE CRITICAL QUESTIONS WHICH WE HAD TO RESOLVE BEFORE CONCLUDING SUCH AN ARRANGEMENT:

1. FORM OF COMMITMENT AND WHETHER THE PURCHASE WOULD BE MADE BY THE USG DIRECTLY OR UNDER AN ARRANGEMENT WHEREBY PRIVATE IMPORTERS WOULD PROVIDE A COMMITMENT WHICH WOULD SUPPORT THE USG UNDERTAKING WITH IRAN. (THIS IS NOT A SIMPLE PROBLEM AND WILL REQUIRE SOME BASIC DECISIONS ON OUR PART.)

2. OIL PURCHASE PRICE - WHETHER AT OPEC OFFICIAL

PRICE AT THE TIME OF EACH OIL SHIPMENT OR A FORMULA
PRICE INDEXED TO U.S. EQUIPMENT COSTS. (THIS RAISES
A BASIC ISSUE WHICH COULD CREATE SERIOUS PROBLEMS WITH
CONGRESS.)

3. WHETHER THE U.S. TREASURY NOTES (PURCHASE
CERTIFICATES) PROVIDE A YIELD AFTER THE MORATORIUM
PERIOD BASED ON OUR AGREED INTEREST RATE OR ON CHANGES
IN THE WHOLESALE PRICE INDEX.

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ANSARY EXPRESSED APPRECIATION FOR THE DETAILED EXPLANA-
TION OF OUR IDEAS REGARDING A BILATERAL "OIL FOR U.S.
PRODUCT" BARTER, ASSURED ME THAT IT WAS OF GREAT INTEREST
AND WE WOULD HEAR FROM HIM PROMPTLY REGARDING THE SHAH'S
REACTION.

IN A TELEPHONE CALL FROM LONDON ON THE FOLLOWING DAY,
JUNE 12, 1975, ANSARY RESPONDED THAT HE HAD DISCUSSED
THIS PLAN IN DETAIL WITH THE SHAH WHO SENDS TO YOU THE
FOLLOWING REACTION:

1. HE WOULD PREFER THE FIXED PRICE (WITH INDEX-
ING) TO THE OPEC OFFICIAL PRICE AND URGED THAT WE
REACH AGREEMENT BEFORE THE END OF SEPTEMBER TO
ESTABLISH THE BASE AT THE CURRENT MARKET (\$10.46/BBL)
BEFORE THE PRICE IS INCREASED ON OCTOBER 1.

2. HE IS WILLING TO EXAMINE THE NOTE YIELD "MORATORIUM"
CONCEPT AS A WAY TO PROVIDE WHAT HE VIEWS AS A FURTHER
DISCOUNT FROM THE OPEC OFFICIAL PRICE--BUT THIS MUST BE
HANDLED BY SIDE LETTER TO PRESERVE ITS CONFIDENTIALITY.

3. IF INDEXING OF THE TREASURY NOTES AFTER THE
"MORATORIUM", BASED ON THE U.S. WHOLESALE PRICE INDEX,
IS NOT POSSIBLE, HE WOULD BE WILLING TO CONSIDER A
STRAIGHT INTEREST FACTOR.

4. THE SHAH RESTATED HIS DESIRE TO ESTABLISH THIS
SUPPLEMENTAL COMMITMENT IN THE RANGE OF 500-700,000 BBL/
DAY BUT INSISTED THAT THERE WOULD HAVE TO BE SOME
ASSURANCE THAT THIS WOULD BE OVER AND BEYOND THE CURRENT
LEVEL OF IRAN'S OIL EXPORTS TO THE U.S. (I ASSUME WE CAN
RESOLVE THIS, BUT IT DOES RAISE A BASIC QUESTION AS TO
HOW WE CAN ASSURE CONTINUED MINIMUM LEVEL OF PRIVATE
SECTOR PURCHASES.)

IN SUMMARY, THE SHAH IS ANXIOUS TO PURSUE THIS BILATERAL
DEAL AND IN SPITE OF THE SERIOUS PROBLEMS IT POSES FROM
OUR SIDE, IT SEEMS TO ME WE MUST CONTINUE OUR STUDY
OF THIS POSSIBILITY. MY BASIC CONCERN IS

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CONGRESSIONAL REACTION TO AN OIL PURCHASE PRICE FORMULA; HOWEVER, IT DOES ASSURE IMPORTANT U.S. EXPORT SALES TO IRAN AND THUS NEUTRALIZES THE BALANCE OF PAYMENTS IMPACT. FURTHERMORE, IT IS CLEAR THAT THE MARKET (IN THE TRADITIONAL SENSE) DOES NOT ESTABLISH INTERNATIONAL OIL PRICES AND THIS DEAL COULD PROVE TO BE A HEDGE AGAINST FURTHER ARBITRARY PRICE INCREASES. THIS IS IN ADDITION TO THE PRIMARY OBJECTIVE OF CREATING A COMPETITIVE CONDITION WITHIN OPEC WHICH COULD HAVE A DIRECT IMPACT ON FUTURE OIL PRICING.

I HAVE AGREED TO MEET WITH ANSARY, PROBABLY IN EUROPE FOLLOWING THE ROME FOOD COUNCIL MEETING, JUNE 25-27, TO PURSUE THIS AND OTHER MATTERS SHOULD WE AGREE THAT THIS WOULD BE WORTHWHILE.

TAB B - DRAFT AGREEMENT

1. QUANTITY - 500,000 BBLs/DAY (ABOVE CURRENT U.S. PURCHASES OF APPROXIMATELY 500,000 BBLs/DAY) TO BE INCREASED BY AN AMOUNT EQUIVALENT TO ANY DECREASE FROM THE CURRENT LEVEL OF U.S. PURCHASES.

2. PERIOD - FIVE YEARS FROM DATE OF CONTRACT EXECUTION.

3. OIL PURCHASE PRICE - CURRENT OPEC OFFICIAL PRICE (\$10.46/BBL) TO BE ADJUSTED MONTHLY WITH THE U.S. WHOLESALE PRICE INDEX FROM DATE OF CONTRACT EXECUTION.

4. PAYMENT - IN SPECIAL U.S. FIVE-YEAR TREASURY NOTES TO BE ISSUED MONTHLY BEARING INTEREST AT MARKET RATES TO BE AGREED COMMENCING AFTER A MORATORIUM PERIOD OF (BLANK) MONTHS.

5. TREASURY NOTES - TO BE USED FOR PURCHASES BY IRAN OF U.S. PRODUCTS (MILITARY, AGRICULTURAL AND OTHERS TO BE AGREED UPON), AT ANY TIME AFTER THE MORATORIUM PERIOD, OR TO BE HELD BY IRAN PARTIALLY OR IN TOTAL UNTIL RETIRED IN CASH WITH ACCUMULATED INTEREST AT THE END OF FIVE YEARS.

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6. SPECIAL CONDITIONS -

(A) U.S. TO HAVE THE OPTION TO TERMINATE THIS AGREEMENT SHOULD THE FORMULA PRICE (3 ABOVE) EXCEED THE PREVAILING OFFICIAL OPEC PRICE.

(B) IRAN TO HAVE THE OPTION TO TERMINATE THE
AGREEMENT SHOULD THE INCREASE IN THE PRICE OF PRODUCTS
PURCHASES BY IRAN BY APPLICATION OF TREASURY NOTES
(5 ABOVE) OVER A PERIOD OF (BLANK) MONTHS EXCEED THE
INCREASE IN THE U.S. WHOLESALE PRICE INDEX FOR THE SAME
PERIOD. (THE FORMULA FOR ESTABLISHING THIS COMPARISON
TO BE MUTUALLY AGREED.) INGERSOLL

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